

Bay State Gas Company) D.T.E. 02-75
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I. INTRODUCTION AND PROCEDURAL HISTORY

On November 15, 2002, pursuant to G.L. c. 164, §§ I et. seq., the Bay State Gas Company (“Bay State” or the “Company”) filed with the Department of Telecommunications and Energy (the “Department”) its Load Forecast and Resource Plan for the forecast period 2002/2003 through 2006/2007 (“Forecast” or “Plan”). On December 17, 2002, the Massachusetts Division of Energy Resources (“DOER”) filed its motion for intervention, which was subsequently granted by the Department. The Office of the Attorney General sought intervention on January 6, 2003, which was also granted.

The Department docketed the proceeding as D.T.E 02-75. An adjudicatory hearing was initially scheduled for April 9, 2003, but was cancelled, re-scheduled and conducted on May 20, 2003. The Attorney General offered and moved into evidence Information Requests Exhs. AG-1 – 1 through AG –1 –14. DOER offered and moved into evidence Information Requests Exhs. DOER – 1 – 1 through 3 – 1.

In support of its filing, Bay State sponsored the testimony of Stanley M. Dziura, Jr., a consultant hired by Bay State; William Gresham, Bay State’s Manager of Forecasting; Francisco C. DaFonte, Bay State’s Director of Energy Supply Services; and Joseph A. Ferro, Bay State’s Manager of Regulatory Policy. Bay State offered and moved into evidence Exh. BSG – 1.

II. ARGUMENT

A) Bay State's Ten Percent Contingency Reserve Proposal Fails To Meet Department Standards for Adequacy and Cost.

Upon review by the Department, a gas company must demonstrate that its supply plan is the result of a process that, as a whole, enables the company to achieve an adequate, least-cost, and low-environmental impact supply plan. NSTAR Gas Company; D.T.E 02-12 at 36 (June 16, 2003). Bay State's ten percent contingency reserve proposal failed to make that demonstration. Specifically, the Company failed to demonstrate that: (1) it has examined a comprehensive array of resource options; (2) it has established appropriate criteria; (3) it has a mechanism in place for comparing all resources on an equal basis; and (4) it has a process that would enable the company to achieve least-cost resource adequacy. NSTAR at 14.

The Company has proposed, as a modification to its resource planning protocol, the addition of a ten percent contingency reserve ("reserve proposal") which the Company would acquire prospectively. The volume of the reserve proposal represents ten percent of the Company's total design day throughput (Tr. page 58, 16 – 17)¹ and the cost of the reserve proposal would be borne by all sales and transportation customers (Tr. page 10, 12 – 21).

The Company's proffered reasons in support of the reserve proposal include uncertainties concerning creditworthiness standards (Tr. page 25, 16 – 19), suppliers exiting the retail business (Tr. page 25, 22 – 24), planning for "force majeure" events

¹ This is based on a one-in-twenty-five-year occurrence.

following the September 11th terrorist attacks (Tr. page 23, 12), and serving grandfathered transportation customers should they return to sales service (Tr. page 10, 1 – 6).

Upon examination, it is evident that, while resource planning in the natural gas industry has become increasingly difficult and complex, the reserve proposal is NOT the appropriate way to address these complexities. The reserve proposal is not based on any quantitative analysis; there has been no demonstrated examination of alternatives that provide assurance and stability without the cost premium associated with the reserve proposal; and the Company is unsure of exactly who must be served or what the actual needs are likely to be.

The Stated Purposes for the Reserve Proposal are Ill-Defined and Insufficient to Justify Imposing Additional Costs on All Customers Without Consideration of More Prudent Alternatives

No one will argue against the need for solid and conservative resource planning in today's natural gas environment. The recent terrorist attacks and world events lend such planning an even greater urgency. Those conditions, however, do not obviate the need for careful consideration of what those resources will be, what they will cost, where they will be acquired, and who will need them.

The Company's concerns with war and terrorism justify careful consideration of resource needs in the event of the unanticipated and the unplanned. However, the Company has failed to create any nexus between such events and the reserve proposal. Similarly, the Company, while legitimately troubled about the uncertainties in the industry, makes no connection between the reserve proposal and responding to the questions being examined by

the North American Energy Standards Board considering creditworthiness.² The Company's conclusions about suppliers exiting the retail market were similarly unpersuasive as to the need for the reserve proposal.

Significantly, the Company witnesses directly contradicted the primary basis articulated for the reserve proposal in the Company's Initial Filing. The Company's Filing, at page 40, expressly states that the reserve proposal is necessary to serve grandfathered customers who might migrate back to Bay State service. Mr. DaFonte's testimony at the evidentiary hearing repeats this concern:

Q. The basis for the proposal is the company's belief that such a reserve is necessary in order for the company to be able to serve at least a portion of its grandfathered transportation customers should they return to sales service, is that correct?

A. Yes. (Tr. page 10, 1 – 6)

However, later during the same hearing, the same witness, in response to Department inquiry, stated the reverse:

A. We are not planning on the grandfathered load.

Q. Isn't that what you are just doing here? You are planning on the grandfathered load?

A. Today we are not planning on serving the grandfathered load. (Tr. page 58, 2 – 8)

While the Company may be uncertain about who requires the reserve proposal, it

² The Company's assertions concerning overall tightening of standards and forcing certain suppliers out of the system were unsupported at the hearing. A review of the recent work done by the NAESB and the Federal Energy Regulatory Commission (a review that the Company admits it did not undertake) (Tr. pages 26 – 27), reveals that the Company's assertions are simplistic and, in large part, inaccurate.

intends that all customers pay for it:

Q. The company has indicated that, depending on the level of costs incurred to satisfy the reserve requirement, it may be appropriate to recover some of these costs from all firm customers, is that correct?

A. That's correct. The company's position is that the 10 percent reserve, while helping to serve a portion of the grandfathered load, would also be used to satisfy firm-sales customers' requirements in the event that there were to be any supply disruptions of any kind as well, which we have experienced over the past few years. So the company's position is that, then, there should be an allocation amongst the transportation customers as well as the sales customers. (Tr. page 10, 7 – 21)

Uncertainties in world events and within the markets must be considered in any resource planning endeavor. Not understanding the uncertainties and not understanding which customers need additional reserves is NOT a basis to impose an additional ten percent contingency reserve cost on all customers.

Even assuming that the Company was certain that the reserve proposal was necessary to serve grandfathered load, as originally stated in Exh. BSG - at 41, it failed to demonstrate that the reserve proposal is the reasonable approach to resource planning.

The methodology employed by the Company for evaluating the effect of transportation migration on firm load is consistent with the Department's requirements; see NSTAR at 31; however, these results would appear to demonstrate that migration of grandfathered transportation customers over the period of 1996 to 2002 is simply not a significant resource issue (see Exhibit DOER 1 – 1).

The Company Failed to Consider Modifying Its Planning Standards Before Embracing the Reserve Proposal

Bay State employs a one in twenty-five year occurrence for planning purposes, originally approved by the Department in D.P.U. 93-129. (Tr. page 16, 10 – 18). This is, as Bay State readily states, less than the Department has approved for other LDCs; Exh. BSG - 1 at 44. In fact, the Department, in D.T.E 01-105, approved a design-day standard of a one in forty-seven year occurrence and a design-winter standard of a one in thirty-seven year occurrence for Keyspan. More recently, in NSTAR, supra., the Department approved a one in fifty year design-day standard and a one in thirty-three year design-winter standard, finding both to be reviewable, appropriate, and reliable.

Rather than propose alternative planning standards, Bay State has offered the reserve proposal, without quantitative data, based solely upon management judgment, supply estimates, and uncertainties within the gas industry; Exhs. DOER 2-9, 2-10, and 3-1. One must question why the Company failed to evaluate a modification to its planning standards, increasing them to standards more consistently employed by other Massachusetts LDCs³ before contemplating an untried planning approach that represents a significant departure from Department precedent.

This question becomes even more significant in light of the testimony that the reserve proposal represents 10% of the company's design-day load, based on the one in twenty-five year occurrence standard. (Tr. page 55, 7 – 14); see also Exh. DOER 2-14.

While the Company's witness explained that the Company believed increasing the planning standards to a one in fifty year occurrence would increase costs for all customers; (Tr. page 58, 16 – 24); the Company seems intent upon increasing such costs anyway. The witness'

³ In Ex. DOER 2-14, the Company states a reasonable alternative to the reserve proposal may be to increase its

testimony, referenced at page 6. supra., established that the Company intends the costs of the reserve proposal be imposed on all customers.

The Company's reserve proposal makes no sense within any reasonable planning context. For example, the responses to DOER-RR-6 and -7 indicate that the reserve proposal equates to a design-day standard of a one in two hundred and seventy-five year occurrence and a design-winter standard of a one in seventy-two year occurrence. Such design standards, within the context of this supply plan and as measured against the Department's overall planning standards, are clearly unreasonable.⁴

The Company's reserve proposal is unsupported by hard data, is non-quantifiable, and ignores traditional planning approaches approved by the Department.

The final reason offered to support the reserve proposal: its similarity to the "model used by many independent System Operators in managing reliability on the electric grid, whereby a reserve generating capacity margin of approximately 15% is maintained over and above the projected peak day." Exh. DOER 3-1; is truly a remarkable stretch. While suggesting a mechanism somewhat akin to a "gas ICAP" is imaginative, the obvious planning concerns surrounding the inability to store electricity for future use, are not applicable to natural gas supplies.

For all of the above reasons, DOER respectfully recommends that the Department deny Bay State's proposed ten percent contingency reserve as a planning option and direct Bay State

existing planning standards.

⁴ Further, design standards are based on the coldest predicted weather. Thus, when weather is warmer than design, the Company is not using all of the capacity it has available to it and has a built-in reserve available to serve added load resulting from unexpected events.

to develop and implement planning standards more akin to those recently approved by the Department in D.T.E 01-105 and D.T.E. 02-12.

B. Bay State Lacks Sufficient Firm Design-Day Capacity to Assure Supply to its Brockton Division

Local Distribution Companies (“LDCs”) rely on firm capacity to meet specific design conditions within overall planning standards. Firm capacity is found upstream of LDC city gates on interstate pipelines and downstream in their service territories, through use of local LNG and propane facilities. Firm capacity guarantees the LDC top priority for delivery of its supply throughout the winter. Without adequate amounts of firm capacity, LDCs are at risk for supply shortfalls on the coldest days of the winter.

For the 2003-2004 winter, the Company needs 417,660 MMBtu of firm capacity to meet design-day customer requirements in its three service territories. Exh. BSG-1; Sch. IV-10. More specifically, the Company needs 217,590 MMBtu of firm capacity to serve customers in the Brockton Division on the design day; 145,852 MMBtu coming from upstream contracts (Interstate Pipelines, Exchanges, the Mendon Interconnect and DOMAC LNG) and 71,738 MMBtu coming from downstream and on-system resources (Propane and Local LNG). Attachment to Exh. DOER 1-29 (b). DOER is concerned with the constrained availability on the design day of one of the Company’s upstream contracts used to serve the Brockton Division.

According to the Company, it has the capability of withdrawing and delivering to Brockton up to 14,758 MMBtu⁵ from its Dominion Storage Service contract and will rely on such to meet design-day requirements. Attachment to Exh. DOER 1-29 (b). However, DOER notes that the

⁵ Slight discrepancies in volume are accounted for by fuel loss. Tr. page 83, 7 -15.

Company is able to transport only 5,489 MMBtu by contract on a firm basis to Brockton. Exh. BSG – 1, Sch. IV-1, Capacity Path L. As the Company does not have firm contracts for the remaining 9,269 MMBtu of this storage supply to Brockton, it is not an appropriate planning measure for the Company to rely on all of this capacity on the design day.

The Company admitted that a significant portion of its transportation capacity from Dominion Storage is not under a firm contract. It stated it will exchange this capacity with another party in order to get the remainder of this storage supply delivered to Brockton or will enter into a firm delivered-city-gate supply alternative if this capacity is unavailable on the design day. (Tr. page 84, 11 – 19). Company testimony averred that, in the past, it has entered into firm exchanges and delivered-city-gate supply agreements as an alternative to delivering all of its Dominion Storage supply. (Tr. page 85, 7 – 25, page 86, 1 – 23.) Going forward, the Company believes either alternative will be available on the design day, so long as it has a firm agreement with another party. (Tr. page 85, 7 – 22).

The Company stated that firm exchange agreements have taken at least 24 hours to complete while firm delivered-city-gate supply alternatives and transportation contracts usually are explored and entered prior to the beginning of the winter period. The Company used its new HubLine contract as an example for obtaining a firm transportation contract. (Tr. Pages 85-86).

DOER believes that the Company should not rely on the majority of its Dominion Storage supply reaching Brockton on the design day for the upcoming winter because much of the transportation capacity used to deliver this supply is not firm. Rather, the Company should enter into an alternative firm arrangement for this shortfall. Accordingly, DOER's comments below deal

specifically with the Company's ability to obtain a firm exchange agreement at least 24 hours prior to the design day.⁶

In past winters, the Company has been able to secure firm exchanges for delivery of the remainder of its Dominion Storage supply. (Tr. Page 84, 15 - 19) However, the past has not had a design day. On the design day, demand for capacity in New England will be significant. There will be little, if any, liquidity in the market. Exh. BSG-1, page 42; Exh. DOER 2-8. This minimizes the reliability and likelihood of obtaining sufficient firm spot capacity when needed. As testified to by Mr. DaFonte, the Company would not want to be put in the situation where it would have to bid for this particular supply. (Tr. page 91, 21 - 23) It is, therefore, reasonable to conclude that, in this context, the past is not a good predictor for the availability of firm exchange agreements on the design day.⁷

For the upcoming winter, capacity will remain scarce in New England. This is true despite the recent, significant pipeline additions to the region. (Tr. page 91, 3 - 13). This was recently demonstrated by upstream pipeline operation and market responses to this past winter's weather, in which pipelines serving Northeast markets curtailed throughput and instituted delivery restrictions for firm shippers. Exh. DOER 2-8. Since these capacity restrictions took place on days much

6 In the case of entering into a HubLine-like transportation contract before the upcoming winter, the Company does not appear to have enough time for such because the HubLine contract itself took many months to complete and many months do not exist between now and November 1, 2003.

7 Further, DOER notes that in responses to Exhs. DOER 1-18 and -19, the Company has the capability to transfer on a firm basis 27,500 Dth between Tennessee and its Brockton Division, but relies only on 22,500 Dth on the design day because the remaining 5,000 Dth, although firm, is transferable only on a secondary basis. Thus, although firm capability exists, a secondary basis for delivery is not reliable enough for the design day. Tr., pages 87-88. DOER believes this is a more reasonable and appropriate way to look at the availability of using capacity on the design day; it must be firm and primary.

warmer than the design day, DOER believes more stringent delivery restrictions will exist on the design day, a day that will be fifteen to twenty percent colder than the coldest day of this past winter. (Tr. Page 29, 12-17) .

Based on the above, DOER believes there is little probability a firm exchange agreement deliverable on a primary basis to the Company's Brockton city gates will exist on the design day.

In addition to the lack of firm upstream capacity available to Brockton on the design day, DOER is concerned about the Company's ability to predict when such an event will occur, which argues for the imposition of a conservative planning standard for the design day and the design winter. The Company should not be speculating about its ability to obtain firm (and primary) capacity on the design day or just before that day. Contracting for firm capacity before the beginning of the winter is the more reasonable approach.

DOER recommends that the Department require the Company to do one of the following, before November 1, 2003: (1) assure its non-firm short-haul transportation capacity from Dominion Storage to the Brockton city gates for the shortfall in deliveries; (2) enter into a firm exchange agreement with primary deliverability to the Brockton city gates for the shortfall in deliveries; or (3) enter into a firm delivered-city-gate supply to the Brockton Division for the shortfall in deliveries.⁸

DOER has made the above recommendations based on the Company's projection that its HubLine contract (up to 20,000 MMBtu/day deliverable to the Brockton Division) will be in service by November 1, 2003. Exh. DOER 1-29 (b). If the Company learns this transportation capacity will not be available until after December 1, 2003, the Department should require the

⁸ Since DOER is recommending an increase to the Company's design standards, the amount of additional firm

Company to provide notification to the Department concerning its plans to cover for HubLine until such time as it becomes available.⁹

III. CONCLUSION

Consistent with the above conclusions and arguments, DOER recommends that the Department:

- (1) deny the ten percent contingency reserve proposal and direct the Company to develop planning standards more akin to those recently approved by the Department in D.T.E. 01-105 and D.T.E. 02-12;
- (2) require the Company, by November 1, 2003, to: (1) assure its non-firm short-haul transportation capacity from Dominion Storage for any shortfall in deliveries to the Brockton Division; (2) enter into a firm exchange agreement with primary deliverability to the Brockton city gates for the shortfall in deliveries; or (3) enter into a firm delivered-city-gate supply to the Brockton Division for the shortfall in deliveries;
- (3) require the Company to notify the Department of its plans for alternative firm capacity if it learns that HubLine service will not be available before December 1, 2003; and
- (4) subject to the above such requirements and conditions, approve the balance of the supply plan as presented.

Respectfully submitted,

deliveries required for the Brockton Division for the upcoming winter should be adjusted to this new standard.

⁹ The Company reported it will begin to make plans to cover its HubLine capacity within the next 60 days, if it learns this service will be delayed for an extended period. (Tr. page 82)

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